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Data Availability and Use
Productivity Commission
GPO Box 1428
Canberra ACT 2601

Feedback on Productivity Commission Draft Report on Data Availability and Use

Thank you for the opportunity to respond to your draft. Our response deals with Draft Recommendation 4.1 in relation to Comprehensive Credit Reporting.

We would like the Productivity Commission to reconsider Draft Recommendation 4.1. We feel that the Productivity Commission has a rare opportunity to deliver a solution that deals with unhealthy reliance of some consumers on credit and the inability of lenders to truly meet their responsible lending obligations. We reiterate our suggestion that lenders holding an Australian Credit License be obliged to report partial CCR (that is CCLI information excluding RHI) by end of 2017.

Draft Recommendation 4.1 does not address the problem of providing lenders with visibility of a consumer's full credit commitments. On one hand, if the 40% target is achieved, there is little guarantee that the remaining 60% of lenders will voluntarily participate in CCR, particularly as lenders continue to explore other "alt-data" means of improving credit assessment. Evidence from New Zealand shows that two large lenders have still not shared their data despite take-up by around 50% of the market. As noted in Johnson (2013)¹, it is only once adverse selection becomes observable that non-participating lenders will consider sharing their data - possibly two years after critical mass is achieved - by which time many consumers will have suffered bankruptcy or other forms of financial hardship.

If the 40% target is not achieved and CCR is made mandatory, the industry will still be confronted by the technical and interpretive issues related in RHI, exemplified by the debate about FOS Determination 422745. It is for this reason that we suggest the Productivity Commission recommend mandatory reporting of CCLI by end 2017. As stated in previous submissions, the infrastructure and framework are already in place for lenders to meet this requirement. We suggest that reporting of RHI remain voluntary.

In support of our suggestion, we have watched the regulators of UK and US implement a range of responsible lending obligations following the adverse consumer outcomes associated with the GFC². Many

of these obligations are able to be enforced because lenders have ready access to information about the consumer's level of indebtedness through positive credit reporting. We would like the Productivity Commission to consider how lenders in Australia can be held to account for practicing responsible lending when they do not have visibility of a customer's complete credit commitments.

Our concern stems from Australia's high debt-to-income ratio. While much of this is due to the level of mortgage debt, we are seeing evidence of serious indebtedness in the non-mortgage and first home buyer segment. For example, at the recent ARCA conference, David Grafton presented research by Experian which indicated that "Millennials" are twice as dependent as "Baby Boomers" to fund their lifestyle and more reliant on credit to fund their quality of life. In addition, in the recent publication of its CCR update, Veda reported that credit risk significantly increases when consumers have more than two lending relationship and that consumers with a mortgage are around half as risky as non-mortgage consumers. Lack of positive credit data means that it is easy for borrowers to disguise undisclosed debt. FIMA believes that lack of visibility of credit information has created a systemic and potentially unhealthy reliance by some consumers on debt from multiple lenders. The growth of fintech and other non-traditional lenders has provided even more options for borrowers seeking credit.

We would like the PC to reconsider Draft Recommendation 4.1. and consider making reporting of CCR CCLI data mandatory across all Australian Credit License holders by the end of 2017.

Yours Faithfully

Stephen Johnson
Principal Advisor

¹ Johnson S, CONSUMER LENDING: implications of new comprehensive credit reporting; JASSA The Finsia Journal of Applied Finance Issue 3 2013

² US Consumer Financial Protection Bureau <http://www.consumerfinance.gov/> and UK Financial Conduct Authority <https://www.the-fca.org.uk/>